

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4236-04  
Bill No.: HCS for HB 1590  
Subject: Agriculture and Animals; Agriculture Dept.; Tax Credits; Taxation and Revenue - Income  
Type: Original  
Date: March 18, 2008

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Bill Summary: Modifies provisions pertaining to the administration of agriculture incentives and programs

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
General Revenue	(Greater than \$170,000)	(Greater than \$691,892)	(Greater than \$691,892)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Greater than \$170,000)</b>	<b>(Greater than \$691,892)</b>	<b>(Greater than \$691,892)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Various State Funds	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **Department of Economic Development and State Treasurer's Office** assume no fiscal impact to their agency.

Officials from the **Secretary of State's Office (SOS)** assume this bill requires the Department of Agriculture and the Department of Revenue to promulgate rules. These rules will be published by our division in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the various agencies could require as many as 125 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23.00. The estimated cost of a page in the Code of State Regulations is \$27.00. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

**Oversight** assumes the SOS could absorb the costs of printing and distributing packets and sections of the State Manual related to this proposal. If multiple bills pass which require the printing and distribution of packets at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Revenue (DOR)** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed due to Section 135.633.

**Office of Administration Information Technology (ITSD DOR)** estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this proposal could be implemented utilizing 4 existing CIT II for 1 month for modifications to MINITS, COINS, CAFÉ, MITS and Corporate E-file. The estimated cost is \$16,744.

### **Section 135.633**

Officials from the **Department of Agriculture** assume the demand for the MELO tax credits will far exceed the cap of \$300,000.

ASSUMPTION (continued)

In response to a similar proposal, CCS for HCS for SCS for SB 156, 0534-14 (FY 07), officials from the **Department of Agriculture** assume General Revenue collections will be reduced by the amount of the tax credits but somewhat offset by the amount of economic activity generated.

The proposal caps the tax credits at \$300,000.

**Oversight** compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 118 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 100 percent of tax credits issued. Therefore, under this proposal, if \$300,000 of credits are issued, Oversight would assume \$0 to \$295,500 (98.5%) of credits to be redeemed, reducing Total State Revenues.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would authorize the Missouri Agriculture and Small Business Development Authority to issue tax credits to owners of livestock operations to partially offset certain expenses incurred for implementing odor abatement best management practices and systems.

The DNR assumes they would implement the provisions of this proposal utilizing existing resources.

Section 142.028

Officials from the **Department of Agriculture (MDA)** assume a qualified biomass ethanol plant will begin production in September 2010 with a 10 million gallon production annual capacity. At 20 cents-per-gallon the plant would earn \$1,666,667 million in producer incentives in FY11.

ASSUMPTION (continued)

Section 144.053 and 144.063

Officials from the **Department of Natural Resources (DNR)** assume this section of the proposal would exempt any new or used farm tractors, machinery, or equipment including parts, supplies, and fuel used to plant, harvest, process, or transport forestry products from state and local sales tax.

The proposal would exempt the purchase of fencing materials for agricultural purposes.

DNR's Parks and Soils Tax fund is derived from one-tenth of one percent sales and use tax pursuant to Section 47(a) of the Missouri Constitution. The fiscal impact from the exemptions proposed in this proposal is unknown but taken in the aggregate with those sales and use tax exemptions in past and future legislative sessions would result in some loss to the Parks and Sales Tax Fund.

In response to a similar proposal in FY 07, HB 710, 1001-01, the **Department of Revenue** assumed even though this proposal would result in a loss of revenues; Taxation does not anticipate an impact.

**Oversight** could not find information regarding annual expenditures on agricultural fencing to formulate an estimate of the fiscal impact of this proposal. Therefore, Oversight will assume an unknown loss of revenue to the various state and local sales tax funds resulting from this proposal.

Section 206.546

Officials from the **Department of Natural Resources** assume currently political subdivisions and volunteer fire departments can request reimbursement from the Hazardous Waste Fund (HWF) for costs incurred from the response to a hazardous substance release if proof of an immediate need for funds is established or prompt reimbursement from the person having control over the hazardous substance is not anticipated.

If the person having control of the hazardous substance contests the costs associated with the cleanup, the volunteer fire department or political subdivision would bear the burden of proof to justify the costs. This proposal would require the volunteer fire district or political subdivision to specify costs and explain why such costs were reasonable and necessary.

The department would not anticipate a direct fiscal impact from this proposal.

ASSUMPTION (continued)

Section 263.232

Officials from the **Department of Conservation (MDC)** assume sections 144.053 and 144.063 of this proposal would appear to have a negative impact on MDC funds. However, MDC is unable to provide the estimate and will rely on DOR for the fiscal impact of this proposal. Section 263.232 of this proposal would not appear to have fiscal impact on MDC funds. Spotted knapweed is uncommon on Missouri Department of Conservation lands. The Department is working to control sericea lespedeza and research and evaluation efforts are underway as well. Other provisions of this proposal would not appear to have significant impact on MDC funds.

Officials from the **Department of Natural Resources (DNR)** has identified spotted knapweed (*Centaurea stoebe* = *Centaurea biebersteinii*) in 9 state parks (Bennett Spring, Cuivre River, Hawn, Illiniwek SHS, Johnson's Shut-Ins, Meramec, Montauk, St. Joe and Stockton). To comply with the proposal DNR will need to conduct surveys at the parks listed and others to identify the extent of infestation. They have sericea lespedeza practically in every state park. It is estimated at least \$100,000 to possible \$200,000 to control the spread of these specific weeds.

**Total costs are reflected as zero based on a decision made by the Oversight Subcommittee on February 1, 2000 in reference to a similar proposal (HB 1395) from the 2000 session.**

Section 348.230, 348.235 & portions of 348.434

Officials from the **Department of Agriculture** assume subject to appropriations is the following:

There are approximately 109,000 dairy cows in the state. The state average cull rate on dairy cows is about 30%. University of Missouri Commercial Ag Dairy Economists estimate that of the replacement animals going back into the herd, about 15% are actually purchased and the other 85% are raised on the farm. Currently good replacement animals are selling for about \$2,100 per head. Assuming a 8% interest rate and a 30% participation rate by dairy farmers.

ASSUMPTION (continued)

109,000 head x 30% cull rate x 15% purchased x \$2,100 per head x 8% interest rate x 30% participation rate = \$247,212.

Assuming that Missouri will see a 5% increase in new dairies and expansions.

109,000 x 5% increase x \$2,100 per head x 8% interest rate x 30% participation rate = \$274,680.

TOTAL \$247,212 + \$274,680 = \$521,892.

The maximum cumulative annual grant shall not exceed \$50,000.

Section 348.505

Officials from the **Department of Agriculture (AGR)** assume there is currently a waiting list for Family Farm Breeding Livestock Tax Credits of approximately \$150,000.

In response to a similar proposal in FY 07, CCS for HCS for SCS for SB 156, 0534-14, the Family Farms Breeding Livestock Loan Program was passed in FY 06 with the tax credit annual limit of \$150,000. Loan applications were approved for the \$150,000 limit with 3 months after becoming effective. Therefore, the assumption is that the expansion would be utilized each year as well.

Section 414.012, 414.032, 414.042, 414.052, 414.112 and 414.122

Officials from the **Department of Agriculture (AGR)** assume the Fuel Quality Program will sample and test motor oil for compliance. The AGR will attempt to absorb cost of this new program.

Section 348.518, 348.521, 348.524, 348.527, 348.530 & 348.533

Officials from the **State Treasurer's Office** assume no fiscal impact to their agency.

Officials from the **Department of Agriculture (AGR)** assume this proposal allows farmers to continue to operate in those years with low commodity or livestock prices and or high feed and input costs. The proposal will also help ensure the long-term viability of Missouri Small to medium farmers.

ASSUMPTION (continued)

Based on the historical usage and payments or two other guarantee programs, AGR administers they do not anticipate more than 1 default per year.

Officials from the **Secretary of State's Office** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing packets and sections of the State Manual related to this proposal. If multiple bills pass which require the printing and distribution of packets at substantial costs, the SOS could request funding through the appropriation process.

**This Proposal Reduces Total State Revenue.**



FISCAL IMPACT - State Government

FY 2009  
 (10 Mo.)

FY 2010

FY 2011

**GENERAL REVENUE**

Cost - Section 142.028 - Department of  
 Agriculture

Incentive Payment	<u>\$0</u>	<u>\$0</u>	<u>(\$0 to \$1,666,667)</u>
Subtotal	<u>\$0</u>	<u>\$0</u>	<u>(\$0 to \$1,666,667)</u>

Cost - Section 135.633 - Department of  
 Agriculture

Tax Credits	<u>(\$0 to \$300,000)</u>	<u>(\$0 to \$300,000)</u>	<u>(\$0 to \$300,000)</u>
Subtotal	<u>(\$0 to \$300,000)</u>	<u>(\$0 to \$300,000)</u>	<u>(\$0 to \$300,000)</u>

Loss - Section 144.053 & 144.063

Sales Tax Exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Subtotal	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

Cost - Section 348.230, 348.235 & 348.434 - Department of Agriculture

Program Costs	\$0	(\$521,892)	(\$521,892)
Equipment & Expense	<u>(\$0 to \$50,000)</u>	<u>(\$0 to \$50,000)</u>	<u>(\$0 to \$50,000)</u>
Subtotal	<u>(\$0 to \$50,000)</u>	<u>(\$521,892 to \$571,892)</u>	<u>(\$521,892 to \$571,892)</u>

Cost - Section 348.505 - Department of  
 Agriculture

Tax Credits	<u>(\$150,000)</u>	<u>(\$150,000)</u>	<u>(\$150,000)</u>
Subtotal	<u>(\$150,000)</u>	<u>(\$150,000)</u>	<u>(\$150,000)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<u>Cost - Sections 348.518, 348.521, 348.524, 348.527, 348.530 &amp; 348.533</u>			
Department of Agriculture			
Loan default payment plan	<u>(\$20,000)</u>	<u>(\$20,000)</u>	<u>(\$20,000)</u>
Subtotal	<u>(\$20,000)</u>	<u>(\$20,000)</u>	<u>(\$20,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(Greater than \$170,000)</u></b>	<b><u>(Greater than \$691,892)</u></b>	<b><u>(Greater than \$691,892)</u></b>
<b>OTHER STATE FUNDS</b>			
<u>Loss - School District Trust Fund</u>			
Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
<u>Loss - Conservation Fund</u>			
Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
<u>Loss - Parks and Soil Fund</u>			
Sales Tax Exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>LOCAL GOVERNMENTS</b>			
<u>Loss - Local Sales Tax Revenues</u> Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT - Small Business

Yes. There will be a positive impact on small business in the amount of the grants, first year interest payment, and tax credits. In addition, the Missouri Alternative Fuels Commission is charged with making recommendations to facilitate the sale and distribution of alternative fuels, which are produced primarily from renewable agricultural products. Increased production and consumption of these alternative fuels will most likely lead to increased agricultural production and higher prices received for the fuel feedstock, thereby benefitting Missouri farmers and farm suppliers.

Yes, to the extent the small business could take advantage of the incentives contained within this proposal.

FISCAL DESCRIPTION

Section 135.633

This portion of the proposal creates the managed environmental livestock operation tax credit for the eligible costs of implementing odor abatement best management practices and systems.

Section 142.028

The proposed legislation allows fuel ethanol produced from qualified biomass to be eligible for certain fuel ethanol production subsidies.

Section 348.230

The proposed legislation is subject to appropriations.

VL:LR:OD (12/02)

FISCAL DESCRIPTION (continued)

Section 348.235

The proposed legislation is subject to appropriations.

Section 348.505

The proposed legislation raises the cap for the family farm livestock loan tax credit.

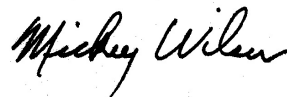
Sections 348.515, 348.518, 348.521, 348.524, 348.527, 348.530 & 348.533

This proposal creates the Livestock Feed and Crop Input Loan Guarantee Program.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Agriculture  
Secretary of State's Office  
Department of Conservation  
Department of Natural Resources  
Department of Revenue  
Department of Economic Development  
State Treasurer's Office



Mickey Wilson, CPA  
Director  
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